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Second Quarter 2008 Market Observations
For Participants

In the second quarter of 2008 the stock market continued its year-to-date to declines. For the quarter, the S&P 500 was down 2.8%, and on a year-to-date basis the index was down 11.9%. We at Advised Assets Group, LLC (AAG) have prepared the following questions and answers to address some of the questions we have been asked regarding the stock market:

Q. What's caused the decline in the stock market during the first half of 2008?

In general, investors are concerned that the economy is rapidly slowing down due to weakness in the housing sector and the affect of higher oil prices. Both slowdowns and recessions tend to cause negative fluctuations in the stock market for several reasons, including typically higher unemployment, lower overall business activity, etc. However, specific to stock investors, the biggest concern regarding a slowdown or recession is the negative affect on corporate profits, which inevitably affects stock prices.

Q. Are we in a recession now?

Based on the most recent data we have, technically we are not. The Gross Domestic Product (GDP) was up a very modest .6% for 4th quarter of 2007 and up 1.0% in the first quarter of 2008. The classic definition of a recession is two consecutive quarters of negative GDP growth. Clearly, with positive GDP growth in both the 4th quarter of 2007 and 1st quarter of 2008, we have not reached the classic definition.

Q. If we aren't in a recession, why has the stock market declined so much?

The stock market is very much a forward-looking institution. Generally, overall prices for stocks reflect what investors think about the collective prospects of corporate earnings in the future. So, prices should generally reflect what investors think corporate earnings will be should the economy markedly slow down and if a recession occurs.

Q. How does the stock market usually perform when the economy cools?

It's difficult to generalize as every situation is different, but as indicated above, the stock market is forward-looking. As such, at some point in most slowing economies, the market starts to focus on the prospect of an economic rebound and faster growth, and how that will affect corporate profits and stock prices. At that time, the market often rallies. In fact, in some ways, slowing economies often create buying opportunities for investors.

Q. Why is the economy so weak at this time?

There are always several reasons for any slowdown, but in this situation, the weakness in the housing market, rising oil prices, and an overall slowdown in consumer spending are the major concerns.

Q. Is there any good news about the economy?

Yes. While undoubtedly the housing market and oil prices are a major concern for consumers, most economists will also point out that that the unemployment rate, while growing, is at historically low levels, interest rates are low, exports are robust, and productivity is at very high levels.

Q. What has the Government done to help the economy and the stock market?

The Government or any of its offices typically does not attempt to directly influence the stock market. However, it oftentimes does attempt to assist the economy, and has done so in several ways this time around. Specifically, the Fed has dramatically cut short term interest rates which helps the economy in several ways, but perhaps the most visible of which is that the rate cuts should help homeowners that have adjustable rate mortgages that are due to be reset in 2008. In addition, the Government provided the stimulus package that was designed to help increase consumer spending. Lastly, the Government has been quite active in supporting the financial markets by assisting in the rescue of Bear Sterns and by assuring the markets about Fannie Mae and Freddie Mac.

Q. Can you Comment about all the write downs associated with the Financial Companies and Banks?

The asset write downs of many of the major Financial Companies and Banks is another consequence of the significant drop in home prices. These organizations either directly leant homeowner's money, or more frequently, held securities whose value was based on the homeowner's ability to repay their mortgages. Many of the homeowners associated with these securities were sub prime (higher risk) borrowers. As delinquencies and foreclosures rose among these borrowers, the underlying securities lost significant value resulting in major write downs for the organizations holding these securities.

Q. Can you comment on the recent developments associated with Fannie Mae and Freddie Mac, specifically regarding the sharp drop in the price of their stock?

Stock investors and Bond investors have been reacting completely differently to the news that it may be necessary for the Fed and/or the Government to be more involved with the affairs of the Agencies. Stock investors are concerned that any greater involvement by the Federal Government would make the value of the stock extremely unclear. On the other hand, Bond investors seem to feel that any Government involvement would enhance the implicit guarantee of the Government regarding the debt and other obligations of the Agencies and could potentially substitute it with an explicit guarantee.

Q. Does Advised Assets Group have an opinion as to when the stock market may rebound or how long the Bear market may continue?

Picking a market bottom is notoriously difficult to do. We would only observe that historically the stock market often rebounds sharply from Bear markets. While we certainly can't guarantee that this will occur this time, history is on the side that there will be a recovery in the stock market. Looking back, some of the best times to invest in the stock market has been at the point of maximum pessimism. We do seem to be approaching that point now. Regardless of market conditions, we advocate that diversification is a good long-term strategy for retirement security.

Q. With regard to the overall market, what should I do as a Plan participant?

Keep in mind that stock markets have these occasional periods of volatility and, historically, the markets have bounced back. Also, it is generally a good idea to stay diversified across asset classes, when investing for the long term.